

**Report of the
PUBLIC EMPLOYEE RETIREMENT
ADMINISTRATION COMMISSION
on the Examination of the
Haverhill
Contributory Retirement System
For the Four Year Period
January 1, 1999 - December 31, 2002
PERAC 02: 09-042-16**

TABLE OF CONTENTS

Letter from the Executive Director	1
Explanation of Findings and Recommendations	2
Statement Of Ledger Assets And Liabilities	4
Statement Of Changes In Fund Balances	5
Statement Of Income	6
Statement Of Disbursements.....	7
Investment Income.....	8
Statement Of Allocation Of Investments Owned	9
Supplementary Investment Regulations	10
<u>Notes to Financial Statements:</u>	
Note 1 - The System.....	13
Note 2 - Significant Accounting Policies.....	14
Note 3 - Supplementary Membership Regulations.....	15
Note 4 - Administration Of The System	17
Note 5 - Actuarial Valuation And Assumptions	18
Note 6 - Membership Exhibit.....	19

April 29, 2004

The Public Employee Retirement Administration Commission has completed an examination of the **Haverhill** Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, **1999** to December 31, **2002**. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners James Ryan and James Sweeney who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton
Executive Director

Haverhill Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

1. Cash Account:

The Haverhill Retirement System has two bank accounts; Bank North depository and Bank North clearing account. A monthly bank transfer is made from the System's Bank North depository account to the Bank North clearing account to fund all administrative and pension related expenditures incurred each month

There is no general ledger account number set up for the Bank North clearing account and the interest income and bank charges are erroneously journalized to cash general ledger account 1042, which is the Bank North depository account.

In addition, a review of the clearing accounts most recent bank reconciliation as of May 30, 2003 indicated that there were twenty seven outstanding checks over six months old.

Recommendation:

The Haverhill Retirement System should set up a new general ledger account number for the Bank North clearing account. The related monthly interest income should be credited to this account and the account balance should reconcile to the adjusted bank balance.

Any checks outstanding for more than six months should be researched so that proper voiding and updating of these items can be completed.

Board Response:

With regards to the cash clearing account for pensioners checks, which has always been monitored through the main checking account, beginning 1/1/04, a new cash account will be established to monitor the activity.

2. Accounting:

The City of Haverhill funds the Haverhill Retirement System's staff salaries and Board member stipends from the monthly pension appropriation. The actual cash disbursed for the staff salaries and Board Stipends are made from a City of Haverhill bank account, which is not on the System's general ledger.

The monthly accounting entries to record staff salaries and stipends incorrectly record the funding and related disbursement to the cash general ledger account number 1042. This is inappropriate due to the fact that the Haverhill Retirement System does not transact cash for salaries and stipends.

Recommendation:

The monthly amount funded and disbursed for staff salaries and Board stipends should not be recorded through cash account 1042. As an alternative, the monthly journal entry to record staff salaries, stipends, and the pension appropriation received should result in a debit to the cash account

Haverhill Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

1042 for the actual cash deposited to the Bank North depository account, with additional debits to salary and stipend accounts 5118 & 5119. The credit should be made to the pension appropriation account 4894.

Board Response:

The monthly accounting entry questioned has been corrected.

3. Annual Statement:

Based upon inspection of the Annual Statements filed by the Board for the four-year audit period, it was determined that certain line item amounts contained in the 2002 Annual Statement did not match the detailed supporting schedules. Differences were found in investment income, and realized and unrealized gains and losses. The Annual Statement does balance to the general ledger.

Recommendation:

As a sole source of information to third parties, the Annual Statement and supporting schedules must be in agreement allowing readers to make an accurate assessment of the systems financial condition without having to reference the general ledger. Prior to submission of the Annual Statement, a review process should be established to ensure all entries on the Annual Statement agree with the detailed supporting schedules using the PERAC Annual Statement Guide published each year. Differences in custodian-provided schedules should be corrected, if needed, and reconciled to the general ledger prior to submission of the Annual Statement.

Board Response:

Schedules 5 and 6 of the Annual Statement will reflect the supporting documentation.

Final Determination:

PERAC auditors will follow-up in six (6) months to ensure that the appropriate actions have been taken regarding the audit findings.

Haverhill Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2002**

FOR THE PERIOD ENDING DECEMBER 31,				
ASSETS	2002	2001	2000	1999
Cash	\$ 4,949,690	\$ 3,449,887	\$ 8,863,565	\$2,881,710
Short Term Investments	0	0	0	0
Fixed Income Securities (at book va	32,887,170	36,942,935	30,557,154	27,407,998
Equities	47,402,809	70,056,610	78,073,255	66,320,271
Pooled Short Term Funds	0	0	0	0
Pooled Domestic Equity Funds	5,621,415	0	0	0
Pooled International Equity Funds	18,070,636	15,453,416	17,682,858	15,209,018
Pooled Global Equity Funds	0	0	0	0
Pooled Domestic Fixed Income Fun	0	0	0	0
Pooled International Fixed Income I	0	0	0	0
Pooled Global Fixed Income Funds	0	0	0	0
Pooled Alternative Investment Fund	4,629,340	5,812,577	8,700,390	14,454,462
Pooled Real Estate Funds	11,422,812	11,913,133	11,135,529	14,460,925
Pooled Domestic Balanced Funds	0	0	0	0
Pooled International Balanced Fund	0	0	0	0
PRIT Cash Fund	0	0	0	0
PRIT Core Fund	0	0	0	0
Interest Due and Accrued	450,674	555,450	555,450	545,868
Accounts Receivable	1,612,324	1,570,853	2,539,725	3,637,158
Accounts Payable	(3,148,749)	(1,236,006)	(1,419,125)	(432,596)
TOTAL	\$ 123,898,121	\$144,518,856	\$ 156,688,800	\$144,484,814
FUND BALANCES				
Annuity Savings Fund	\$30,838,542	\$33,555,228	\$40,771,382	\$38,429,631
Annuity Reserve Fund	23,528,820	20,479,476	12,010,364	11,298,620
Pension Fund	4,353,780	11,579,308	16,168,340	21,745,537
Military Service Fund	3,249	3,187	3,128	3,044
Expense Fund	0	0	0	0
Pension Reserve Fund	65,173,729	78,901,657	87,735,586	73,007,982
TOTAL	\$123,898,121	\$144,518,856	\$156,688,800	\$144,484,814

Haverhill Retirement System

STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2002**

		Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (1999)		36003110.57	10606063.84	\$23,344,750	\$ 2,978	0.0%	\$40,194,912	\$110,151,814
	Receipts	\$ 4,894,153	\$ 8,863,565	7,601,907	\$ 66	108695270.0%	32,813,070	55,259,714
	Interfund Transfers	-1730244.8	1730244.8	0	\$ -	0.0%	0	0
	Disbursements	<u>(737,388)</u>	<u>(1,363,734)</u>	<u>(9,201,119)</u>	<u>\$ -</u>	<u>-108695270.0%</u>	<u>0</u>	<u>(12,389,195)</u>
Equities	47402808.86	38,429,631	78,073,255	21,745,537	3,044	0	73,007,982	211,259,449
	Receipts	83,187,965	339,107	12,074,513	84	217,410,652	14,727,604	327,739,925
	Interfund Transfers	(1,819,008)	1,819,008	0	0	0	0	0
	Disbursements	<u>(9,023,894)</u>	<u>17,682,858</u>	<u>(19,244,929)</u>	<u>(153,740,129)</u>	<u>(1,304,788)</u>	<u>0</u>	<u>(165,630,881)</u>
Ending Balance (2000)		110,774,693	97,914,228	14,575,121	(153,737,001)	216,105,865	87,735,586	373,368,492
	Receipts	5,309,434	360,817	6,558,353	59	1,922,533	(8,837,262)	5,313,935
	Interfund Transfers	(9,856,615)	9,853,282	0	0	0	3,333	0
	Disbursements	<u>(2,668,973)</u>	<u>(1,744,987)</u>	<u>(11,147,386)</u>	<u>0</u>	<u>(1,922,533)</u>	<u>0</u>	<u>(17,483,879)</u>
Ending Balance (2001)		103,558,539	106,383,340	9,986,089	(153,736,941)	216,105,865	78,901,657	361,198,548
	Receipts	50,713,138	11,135,529	7,114,876	62	116,303,012	(13,727,928)	171,538,689
	Interfund Transfers	(4,880,360)	4,880,360	0	0	0	0	0
	Disbursements	<u>(1,242,174)</u>	<u>(2,477,876)</u>	<u>(14,340,404)</u>	<u>(83,523,716)</u>	<u>(1,690,730)</u>	<u>0</u>	<u>(103,274,899)</u>
Ending Balance (2002)		<u>\$148,149,143</u>	<u>\$119,921,353</u>	<u>\$2,760,562</u>	<u>(\$237,260,595)</u>	<u>\$330,718,146</u>	<u>\$65,173,729</u>	<u>\$429,462,337</u>

Haverhill Retirement System

STATEMENT OF INCOME

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2002**

	FOR THE PERIOD ENDING DECEMBER 31,			
	2002	2001	2000	1999
Annuity Savings Fund:			\$ 8,863,565	
Members Deductions	2841558.17	3737388.89	4113962.44	\$3,962,138
Transfers from other Systems	47,524	70,099	221,050	65,453
Equities	47,402,809	802,912	78,073,255	105,987
Investment Income Credited to Men	421,247	699,033	779,697	760,575
Sub Total	<u>50,713,138</u>	<u>5,309,434</u>	<u>83,187,965</u>	<u>4,894,153</u>
Annuity Reserve Fund:			\$17,682,858	
Investment Income Credited Annuity	<u>646,861</u>	<u>360,817</u>	<u>339,107</u>	<u>326,046</u>
Pension Fund:				
3 (8) (c) Reimbursements from Other	122,217	59,305	60,135	60,412
Received from Commonwealth for				
COLA and Survivor Benefits	833,997	810,469	878,848	1,060,960
Pension Fund Appropriation	6,158,663	5,688,580	11,135,529	6,480,535
Sub Total	<u>7,114,876</u>	<u>6,558,353</u>	<u>12,074,513</u>	<u>7,601,907</u>
Military Service Fund:				
Contribution Received from				
Municipality on Account of				
Military Service	0	0	0	0
Investment Income Credited Military	<u>62</u>	<u>59</u>	<u>84</u>	<u>66</u>
Sub Total	<u>62</u>	<u>59</u>	<u>84</u>	<u>66</u>
Expense Fund:				
Expense Fund Appropriation	0	0	0	0
Investment Income Credited to Expense	<u>116,303,012</u>	<u>1,922,533</u>	<u>217,410,652</u>	<u>1,086,953</u>
Sub Total	<u>116,303,012</u>	<u>1,922,533</u>	<u>217,410,652</u>	<u>1,086,953</u>
Pension Reserve Fund:				
Federal Grant Reimbursement	38,790	7,034	71,493	25,593
Pension Reserve Appropriation	0	0	0	0
Interest Not Refunded	14,462	26,461	39,431	17,369
Excess Investment Income	(13,781,180)	(8,870,757)	14,616,680	32,770,108
Sub Total	<u>(13,727,928)</u>	<u>(8,837,262)</u>	<u>14,727,604</u>	<u>32,813,070</u>
TOTAL RECEIPTS	<u>\$161,050,020</u>	<u>\$5,313,935</u>	<u>\$327,739,925</u>	<u>\$46,722,194</u>

Haverhill Retirement System

STATEMENT OF DISBURSEMENTS

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2002**

FOR THE PERIOD ENDING DECEMBER 31,				
Annuity Savings Fund:	2002	2001	2000	1999
Refunds to Members	\$ 893,332	\$ 2,515,214	\$ 8,863,565	\$588,229
Transfers to other Systems	<u>348,841.97</u>	<u>153,759.31</u>	<u>160,328.81</u>	<u>149,159</u>
Sub Total	<u>1,242,174</u>	<u>2,668,973</u>	<u>9,023,894</u>	<u>737,388</u>
Equities	\$47,402,809		\$78,073,255	
Annuities Paid	2,305,290	1,723,467	1,431,438	1,341,367
Option B Refunds	<u>172,586</u>	<u>21,520</u>	<u>14,933</u>	<u>22,368</u>
Sub Total	<u>2,477,876</u>	<u>1,744,987</u>	<u>17,682,858</u>	<u>1,363,734</u>
Pension Fund:				
Pensions Paid				
Regular Pension Payments	10,684,152	7,746,492	6,601,591	6,170,662
Survivorship Payments	385,126	395,732	342,047	315,613
Ordinary Disability Payments	200,807	213,566	208,485	188,464
Accidental Disability Payments	2,308,890	2,029,026	11,135,529	1,896,921
Accidental Death Payments	382,303	407,427	377,106	325,405
Section 101 Benefits	68,548	69,780	95,410	132,425
3 (8) (c) Reimbursements to Other S	181,072	162,080	157,650	171,628
State Reimbursable COLA's Paid	115,052	110,827	312,991	0
Chapter 389 Beneficiary Increase P	<u>14,454</u>	<u>12,455</u>	<u>14,119</u>	<u>0</u>
Sub Total	<u>14,340,404</u>	<u>11,147,386</u>	<u>19,244,929</u>	<u>9,201,119</u>
Military Service Fund:				
Return to Municipality for Members Who Withdrew Their Funds	<u>83,523,716</u>	<u>0</u>	<u>153,740,129</u>	<u>0</u>
Expense Fund:				
Board Member Stipend	15,000	15,000	13,750	15,500
Salaries	262,363	231,957	157,729	141,945
Legal Expenses	64,092	17,499	13,617	28,187
Medical Expenses	0	0	0	0
Travel Expenses	7,093	18,692	20,361	14,740
Administrative Expenses	135,047	133,907	78,829	48,901
Furniture and Equipment	9,521	16,675	36,513	7,535
Management Fees	1,005,372	1,272,779	983,989	698,896
Custodial Fees	103,961	120,098	0	76,035
Consultant Fees	<u>88,281</u>	<u>95,927</u>	<u>0</u>	<u>55,213</u>
Sub Total	<u>1,690,730</u>	<u>1,922,533</u>	<u>1,304,788</u>	<u>1,086,953</u>
TOTAL DISBURSEMENTS	<u>\$103,274,899</u>	<u>\$17,483,879</u>	<u>\$200,996,597</u>	<u>\$12,389,195</u>

Haverhill Retirement System

INVESTMENT INCOME

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2002**

	FOR THE PERIOD ENDING DECEMBER 31,			
	2002	2001	2000	1999
Investment Income Received From:			\$ 8,863,565	
Cash	78285.03	305017.7	276783.76	\$157,573
Short Term Investments	-	-	-	0
Equities	47,402,809	2,965,595	78,073,255	1,935,367
Equities	711,782	956,276	872,768	471,852
Pooled or Mutual Funds	(62,285)	577,922	4,787,975	781,635
Commission Recapture	0	0	17,682,858	63,893
TOTAL INVESTMENT INCOME	<u>48,130,591</u>	<u>4,804,811</u>	<u>101,693,639</u>	<u>3,410,319</u>
Plus:				
Increase in Amortization of Fixed In	0	422,911	4,667	2,748
Realized Gains	3,579,851	8,613,160	31,224,743	12,309,539
Unrealized Gains	2,385,782	1,155,056	30,138,796	28,792,765
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>450,674</u>	<u>555,450</u>	<u>11,135,529</u>	<u>545,868</u>
Sub Total	<u>6,416,307</u>	<u>10,746,577</u>	<u>72,503,736</u>	<u>41,650,921</u>
Less:				
Decrease in Amortization of Fixed I	0	(231,184)	(4,667)	(1,027,099)
Paid Accrued Interest on Fixed Inco	(224,632)	(567,754)	(160,890)	(100,353)
Realized Loss	(10,704,863)	(11,611,262)	(14,149,480)	(6,424,772)
Unrealized Loss	(9,168,441)	(8,474,052)	(37,591,308)	(2,019,401)
Custodial Fees Paid	(555,450)	(555,450)	(545,868)	(545,868)
Consultant Fees Paid	88,440,410	-	304,806,102	-
Management Fees Paid	-	-	-	-
Board Member Stipend	-	-	-	-
Interest Due and Accrued on Fixed Income Securities - Prior Year	-	-	-	-
Sub Total	<u>67,787,024</u>	<u>(21,439,702)</u>	<u>252,353,889</u>	<u>(10,117,492)</u>
NET INVESTMENT INCOME	<u>122,333,922</u>	<u>(5,888,314)</u>	<u>426,551,264</u>	<u>34,943,747</u>
Income Required:				
Annuity Savings Fund	421,247	699,033	779,697	760,575
Annuity Reserve Fund	646,861	360,817	339,107	326,046
Military Service Fund	62	59	84	66
Expense Fund	1,690,730	1,922,533	1,304,788	1,086,953
TOTAL INCOME REQUIRED	<u>2,758,900</u>	<u>2,982,443</u>	<u>2,423,676</u>	<u>2,173,639</u>
Net Investment Income	<u>122,333,922</u>	<u>(5,888,314)</u>	<u>426,551,264</u>	<u>34,943,747</u>
Less: Total Income Required	<u>2,758,900</u>	<u>2,982,443</u>	<u>2,423,676</u>	<u>2,173,639</u>
THE PENSION RESERVE	<u>\$119,575,022</u>	<u>(\$8,870,757)</u>	<u>\$424,127,588</u>	<u>\$32,770,108</u>

Haverhill Retirement System

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

	BOOK VALUE*	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
Cash		4949689.76	0.039602628	100
Short Term		\$ 8,863,565		100
Fixed Income		32887170.33	0.263131313	40 - 80
Equities		47,402,809	0	40
Equities	47,402,809		7807325452.00%	
Pooled Domestic Equity Funds		5,621,415	4.50%	
Pooled International Equity Funds		18,070,636	14.46%	
Pooled Global Equity Funds			1768285807.00%	
Pooled Domestic Fixed Income Funds			0.00%	
Pooled International Fixed Income Funds			0.00%	
Pooled Global Fixed Income Funds			0.00%	
Pooled Alternative Investment Funds		4,629,340	3.70%	5
Pooled Real Estate Funds		11,422,812	9.14%	10
Pooled Domestic Balanced Funds			1113552903.00%	
Pooled International Balanced Funds			0.00%	
PRIT Cash Fund			0.00%	
PRIT Core Fund			0.00%	100
GRAND TOTALS	<u>\$47,402,809</u>	<u>\$124,983,872</u>	<u>11575520767.00%</u>	

* The book value differs from the market value for individually owned Fixed Income Securities which are valued at amortized cost which is the original cost of the investment plus or minus any bond discount or bond premium calculated ratably to maturity. All other investments are reflected at their quoted market value.

For the year ending December 31, **2002**, the rate of return for the investments of the **Haverhill** Retirement System was -6.51%. For the five-year period ending December 31, **2002**, the rate of return for the investments of the **Haverhill** Retirement System averaged 7.67%. For the 18-year period ending December 31, **2002**, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the **Haverhill** Retirement System was 11.18%.

Haverhill Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

The **Haverhill** Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

January 25, 1996

840 CMR 21.00

(3) Futures Contracts other than as follows:

(a) Forward Currency Contracts may be written against securities in the international portfolio by an investment advisor registered under the Investment Advisors Act of 1940 and who has been granted a waiver from PERAC for international investments.

(b) Forward Currency Contracts may be written against securities in the international portfolio to a maximum of twenty- five percent (25%) of the international portfolio's non-dollar holdings at market value. Speculative currency positions unrelated to underlying portfolio holdings are strictly prohibited.

July 25, 1996

20.09(1)

Venture capital investments shall not exceed 3% of the total market value of the portfolio at the time of the investment provided that in any system with assets in excess of nineteen million dollars, venture capital investments may be made up to an amount equal to 5% of the total market value of the portfolio at the time of investment, shall be considered a separate asset class, and provided further that:

(a) the board does not participate in the selection of the personnel responsible for making venture capital investments or otherwise exercise discretion in business affairs and should this be required, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action;

(b) such personnel retain authority in the decision making process, and

(c) should an investment in venture capital result in the direct ownership of securities, such shall be permitted only until such time as divestiture is prudent.

20.09(2)

Venture capital investments shall only be made in venture capital funds operated by venture capital firms having their principal places of business in the United States, Europe, or Asia.

20.09(3)

All venture capital investments shall be made in companies which have their principal places of business in the United States, Europe, or Asia.

Haverhill Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

January 31, 2000

16.02

The Haverhill Retirement Board hereby adopts the terms of the declaration of trust establishing the Institutional Retirement Trust, a Collective Trust of Institutional Trust Company for Participating Pension and Profit Sharing Trusts, collective trust fund sponsored by INVESCO Trust Company, as such declaration of trust is amended from time to time, and agrees that the terms of the declaration of trust, as amended, shall be incorporated into and made part of the retirement plan as administered by the Haverhill Retirement Board. The sole purpose of this special regulation is to satisfy the requirement of the Internal Revenue Service Revenue Ruling 81-100 that each plan that invests in a collective trust established under Revenue Ruling 81-100 incorporate the terms of the collective trust, and this special regulation shall be construed accordingly.

March 26, 2001

21.01

In accordance with PERAC Guideline 99-1, the Haverhill Retirement System authorizes Fisher Investments, its small cap value manager, to utilize options up to 7% of its portfolio value. As specified in the Guideline, the manager's use of options is solely for the purpose of limiting the account's exposure to the equity market's volatility. The Board believes that the use of options as a management tool is preferable to having the manager sell stocks outright from its portfolio.

September 17, 2002

16.08

In accordance with Investment Guideline 99-2, the Haverhill Retirement Board is authorized to modify its existing small cap growth mandate with Deutsche Asset Management to also include, through a separate commingled fund, mid cap growth. This authorization extends through December 31, 2002, and is intended to allow the Board to complete a rebalancing of its portfolio while its existing mid cap growth manager is on performance probation. Deutsche Asset Management's mid cap growth investment team is the same as for the existing small cap growth account.

October 17, 1996

20.07(9)

Commingled real estate shall not exceed 10% of the total book value of the portfolio at the time of purchase including investments in RII Timberland III L.L.C. which shall be limited to total investments of \$1,500,000 and including investments in RII Weyerhaeuser World Timberland L.P. which shall be limited to total investments of \$2,000,000 provided that:

- (a) the retirement board does not participate in the selection of personnel responsible for making real estate investments and should this be required, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action;
- (b) such personnel retain authority in the decision making process, and
- (c) should an investment in real estate result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture is prudent.

Haverhill Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

October 17, 2002

16.08

In accordance with PERAC Investment Guideline 99-3, the Haverhill Retirement Board is authorized to sell its remaining position in North Bridge Venture Partners II (NBVP II) back to the General Partner and to reinvest the proceeds in North Bridge Venture Partners V. This transaction is intended to benefit the Limited Partners by closing the books on NBVP II, eliminating risks due to possible dilution and market uncertainty. It would benefit the General Partner by creating a consolidated, more efficient administrative structure.

Haverhill Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all **Haverhill** Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

Haverhill Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

Haverhill Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The **Haverhill** Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

July 2, 2001

Veteran's Buyback

All members entitled to the Veteran's Buy Back, must make application within the one hundred-eighty (180) days as required under Chapter 71 of the Acts of 1996. They shall then have the option of paying for this creditable service at any time, up to their date of retirement, in one lump sum payment. October 5, 1998 Election Rules Approval of a less than 90 day election schedule for 1998 board election.

Haverhill Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

April 24, 2002

Creditable Service

Any current member of the Haverhill Retirement System who contacted the Board and attempted to make application for the purchase of creditable service pursuant to the terms and conditions of chapter 71 of the acts of 1996, as amended by chapter 188 of the acts of 1996, and who otherwise failed to go forward in such application process because the Board was only considering a lump-sum payment within 180 days of the effective date of the legislation or notice of eligibility, may pay into the annuity savings fund of the Haverhill Retirement System the appropriate make-up payment. Such payment may be in installments at an interest rate to be determined by the Board provided that such installments are completed before the member's effective date of retirement. Interest will commence 180 days after the effective date of the legislation or notice of eligibility. In support thereof, the member must submit an affidavit attesting to reason or reasons why the member failed to complete the process. The Board reserves the right to reject the application after a hearing to which the applicant shall receive notice to attend.

August 19, 2002

The Board has adopted Travel Supplemental Regulations under the provisions of G.L. c.7, § 50 and G.L. c.32, § 21(4). (Regulation available upon written request)

Haverhill Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the City Auditor who shall be a member ex officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex officio Member: Charles Benevento

Appointed Member: Stephen M. Brighi Term Expires: 3/17/05

Elected Member: Vaughn E. Guertin Term Expires: 7/1/05

Elected Member: Mary T. Marino Term Expires: 12/12/04

Appointed Member: James P. Cleary, III Term Expires: 1/29/06

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	\$30,000,000 MACRS Policy
Ex officio Member:)	\$1,000,000 Fiduciary Liability-
Elected Member:)	National Union Fire Insurance
Appointed Member:)	\$1,000,000 Public Employee
Staff Employee:)	Dishonesty- Allied American Ins.

Haverhill Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the **The Segal Company** as of **January 1, 2002**.

The actuarial liability for active members was	\$79,901,671
The actuarial liability for vested terminated members	987,678.9
The actuarial liability for retired members was	<u>1,325,698.87</u>
The total actuarial liability was	222,348,347
Equities	47,402,808.86
	<u>160,890,365</u>
The unfunded actuarial liability was	<u>\$61,457,982</u>
The ratio of system's assets to total actuarial liability	72.4%
As of that date the total covered employee payroll	\$35,435,172

The normal cost for employees on that date was 8.01% of payroll

The normal cost for the employer including administrative expenses was 7.18% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.50% per annum

Rate of Salary Increase: 5.50% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2002

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (ba)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll (ba/c)
1/1/2002	16,089,036.5	22,234,834.7	61,457,982	72.4%	\$ 37,384,107	164.4%
1/1/2001	\$ 156,688,800	\$ 210,219,900	\$ 8,863,565	74.5%	\$ 55,875,300	15.9%
1/1/2000	14,448,480	19,531,280	5,082,800	74.0%	\$ 53,469,200	95.1%
1/1/1999	111,228,800	181,575,900	70,347,100	61.3%	\$ 48,847,800	144.0%

Haverhill Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	1993	\$1,994	1995	1996	1997	1998	1999	2000	2001	2002
Superannuation	32	38	33	41	\$ 38	3300.0%	18	41	178	86
Ordinary Disability \$	1	\$ 1	\$ 8,863,565	1	\$ 1	100.0%	1	1	2	0
Accidental Disability	3	4	6	5	\$ 5	300.0%	0	0	3	3
Total Retirements	36	43	8,863,604	47	\$ 44	3700.0%	19	42	183	89
Equities	47,402,809		78,073,255							
Total Retirees, Beneficiaries and Survivors	890	912	931	947	962	998	997	1,021	1,053	1,198
Total Active Members	1,474	1,507	17,682,858	1,516	1,540	1,692	1,630	1,795	1,354	1,251
Pension Payments										
Superannuation	\$4,326,656	\$4,664,372	\$4,774,943	\$5,031,223	\$5,711,583	\$8,547,040	\$6,170,662	\$6,601,591	\$7,746,492	\$10,684,152
Survivor/Beneficiary Payments	266,209	185,576	303,343	312,010	317,380	*	315,613	342,047	395,732	385,126
Ordinary Disability	184,564	197,007	197,647	195,304	202,362	*	188,464	208,485	213,566	200,807
Accidental Disability	1,259,046	1,371,966	11,135,529	1,562,710	1,689,274	*	1,896,921	1,832,473	2,029,026	2,308,890
Other	<u>499,569</u>	<u>500,399</u>	<u>570,265</u>	<u>591,719</u>	<u>597,261</u>	<u>*</u>	<u>457,831</u>	<u>472,517</u>	<u>477,208</u>	<u>450,851</u>
Total Payments for Year	<u>\$6,536,044</u>	<u>\$6,919,320</u>	<u>\$16,981,727</u>	<u>\$7,692,966</u>	<u>\$8,517,860</u>	<u>\$8,547,040</u>	<u>\$9,029,491</u>	<u>\$9,457,112</u>	<u>\$10,862,024</u>	<u>\$14,029,826</u>

Note: * Amounts included in superannuation